



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Attn: Mandatory Review, MC 4920 DAL
1100 Commerce St.
Dallas, TX 75242

501-07.00

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Date: January 14, 2013

Release Number: 201317016

Release Date: 4/26/2013

LEGEND

ORG - Organization name

XX - Date Address - address

Employer Identification Number:

Person to Contact/ID Number:

Contact Numbers:

Voice

Fax

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Dear :

In a determination letter dated July, 19XX, you were held to be exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code (the Code).

Based on recent information received, we have determined you have not operated in accordance with the provisions of section 501(c)(7) of the Code. Accordingly, your exemption from Federal income tax is revoked effective January 1, 20XX. This is a final adverse determination letter with regard to your status under section 501(c)(7) of the Code.

We previously provided you a report of examination explaining why we believe revocation of your exempt status is necessary. At that time, we informed you of your right to contact the Taxpayer Advocate, as well as your appeal rights. On March 19, 20XX you signed Form 6018-A, *Consent to Proposed Action*, agreeing to the revocation of your exempt status under section 501(c)(7) of the Code.

You are required to file Form 1120 U. S. Corporation Income Tax Return. You have filed Form 1120 U. S. Corporation Income Tax Return for the years ended December 31, 20XX, December 31, 20XX, December 31, 20XX and December 31, 20XX with us. In addition, for future periods, you are required to file Form 1120 with the appropriate service center indicated in the instructions for the return.

You have the right to contact the Office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal Appeals process. The Taxpayer Advocate cannot reverse a legally

correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free, 1-877-777-4778, and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Thank you for your cooperation.

Sincerely,

Nanette M. Downing
Director, EO Examinations

Internal Revenue Service

Department of the Treasury
Director, EO Examinations
Tax Exempt & Government Entities Division
1100 Commerce
Dallas, TX 75242

Date: February 17, 2012

ORG
ADDRESS

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Dear :

We have enclosed a copy of our report of examination explaining why we believe revocation of your organization's exempt status is necessary.

If you do not agree with our position you may appeal your case. The enclosed Publication 3498, *The Examination Process*, explains how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

If you request a conference, we will forward your written statement of protest to the Appeals Office and they will contact you. For your convenience, an envelope is enclosed.

If you and Appeals do not agree on some or all of the issues after your Appeals conference, or if you do not request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court, after satisfying procedural and jurisdictional requirements as described in Publication 3498.

You may also request that we refer this matter for technical advice as explained in Publication 892, *Exempt Organization Appeal Procedures for Unagreed Issues*. If a determination letter is issued to you based on technical advice, no further administrative appeal is available to you within the IRS on the issue that was the subject of the technical advice.

If you accept our findings, please sign and return the enclosed Form 6018, *Consent to Proposed Adverse Action*. We will then send you a final letter revoking your exempt status. If we do not hear from you within 30 days from the date of this letter, we will process your case on the basis of the recommendations shown in the report of examination and this letter will become final. In that event, you will be required to file Federal income tax returns for the tax period(s) shown above. File these returns with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

Nanette M. Downing
Director, EO Examination

Enclosures:
Publication 892
Publication 3498
Form 6018
Report of Examination
Envelope

Form 886A	Department of the Treasury - Internal Revenue Service	Explanation of Items
Name of Taxpayer ORG		Year/Period Ended 20XX12

LEGEND

ORG - Organization name XX - Date

ISSUE

Does the taxpayer, ORG ("TP"), continue to qualify for exemption under Internal Revenue Code ("IRC") Section 501(c)(7) given that it receives more than % of its income from the general public on a recurring basis?

FACTS

TP is organized and operates as a social club exempt from Federal income taxation under IRC Section 501(c)(7) pursuant to a ruling issued by the Service in July, 19XX. The purpose of the organization per its Articles of Incorporation is to gather together those interested in sports such as fishing, hunting, etc. for discussions on these topics and to hold social and recreational activities as a group.

TP's primary activities include providing facilities, events and other activities for the pleasure and recreation of its members and their guests. The benefits provided to TP's members and qualified guests include, but are not limited to, access to the organization's:

- Trap, sporting clays and skeet shooting ranges
- Rifle and pistol ranges
- Stocked fishing pond
- Clubhouse
- Hiking and dog training areas

TP also offers its members and qualified guests NRA certified firearms training and safety courses and hosts a number of member only shooting competitions at various times during the year.

An interview with TP's representative as well as information obtained from TP's website disclosed that the organization's facilities are open to members and to the general public four days per week (Wednesday thru Sunday). During these days, nonmembers may enter the grounds of TP's facilities through an unlocked entry gate and participate in a number of activities and events that are generally available to members, including, but not limited to, the organization's trap, skeet, and sporting clays shooting ranges. In order to use these facilities, nonmembers must sign a club rules and indemnity agreement that is maintained by the cashier working the counter in the Clubhouse. The cashier then charges the individual the applicable nonmember fee associated with each activity the nonmember will participate in. Nonmembers do not have access to TP's rifle/pistol ranges and stocked fishing pond. Otherwise, nonmembers have access to the remaining 80 acres of property owned by TP.

TP records cash receipts, including income derived from nonmember sources, on a daily basis via a MS Excel based daily cash workbook that is maintained by the organization's club manager and treasurer. The results of a three year analysis of these reports, in addition to a review of TP's Form 990, Form 990-T, general ledger, income statement, trial balance and bank statements for the tax periods under review are summarized below:

Form 886A	Department of the Treasury - Internal Revenue Service	Explanation of Items	
Name of Taxpayer ORG		Year/Period Ended 20XX12	

	12/31/XX	12/31/XX	12/31/XX	TOTAL	
Total Nonmember Income					A
Total Member, Investment & Other Income					B
Total Income					C
Nonmember Income % - (A/C)					
Total Member, Investment & Other Income% - (B/C)					

TP's primary sources of nonmember income during the tax periods reviewed were derived primarily from nonmember usage of the organization's trap, skeet, and sporting clays shooting ranges. As summarized above, during the tax periods ending 12/31/XX, 12/31/XX and 12/31/XX, TP received nonmember income as a percentage of gross receipts of %, % and % respectively. These nonmember income levels consistently exceeded the % of gross receipts safe harbor limitation set fourth in Public Law 94-568.

LAW

IRC Section 501(c)(7) exempts from Federal income tax clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and not part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7) of the Treasury Regulations ("Regulations") provides that, in general, the exemption extends to social and recreation clubs supported solely by membership fees, dues and assessments. However, a club that engages in a business, such as making its social and recreational facilities open to the general public, is not organized and operated exclusively for pleasure, recreation and other non-profitable purposes, and is not exempt under IRC section 501(c)(7).

Public Law 94-568 amended IRC Section 501(c)(7) by substituting the "operated exclusively" provision of law with "operated substantially". This amendment effectively allows an IRC Section 501(c)(7) organization allows social clubs to receive up to 35% of their gross receipts, investment income, from sources outside their membership without losing their exempt status. The amendment further provides that within this 35%, no more than 15% of gross receipts may be derived from nonmember use of club facilities and/or services.

Revenue Ruling 66-149 provides, in part, that a social club as not exempt as an organization described in

Form 886A	Department of the Treasury - Internal Revenue Service	Explanation of Items
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IRC Section 501(c)(7) where it derives a substantial part of its income from nonmember sources.

Revenue Procedure 71-17 sets forth guidelines for determining the effect of gross receipts derived from nonmember use of a social club's facilities on the club's exemption under Section 501(c)(7) of the Code. Additionally, this Procedure sets forth record keeping requirements that can be used by a club to document member vs. nonmember usage.

TAXPAYER'S POSITION

Taxpayer's position was not available as of the drafting of this addendum.

GOVERNMENT'S POSITION

TP' s income derived from nonmember sources has exceeded the 15% safe harbor limitation set fourth in Public Law 94-568 on a recurring basis throughout the tax periods ending December 31, 20XX, December 31, 20XX and December 31, 20XX. Therefore revocation of TP' s exempt status is warranted.

CONCLUSION

TP no longer qualifies for exemption under IRC Section 501(c)(7) as its nonmember income has exceeded the 15% nonmember threshold as set fourth in Public Law 94-568. Therefore, TP' s exempt status under IRC Section 501(c)(7) should be revoked effective January 1, 20XX. Should this revocation be upheld, Form 1120 must be filed starting with tax periods ending December 31, 20XX, December 31, 20XX and December 31, 20XX.

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